



Senate

General Assembly

File No. 680

February Session, 2016

Substitute Senate Bill No. 401

Senate, April 19, 2016

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING THE CONNECTICUT BIOSCIENCE
INNOVATION FUND AND INVESTMENTS BY CONNECTICUT
INNOVATIONS, INCORPORATED.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 32-39 of the general statutes is amended by adding
2 subdivision (41) as follows (*Effective July 1, 2016*):

3 (NEW) (41) To invest in private equity investment funds, or funds
4 of funds, and enter into related agreements of limited partnership or
5 other contractual arrangements with such investment funds. Any such
6 investment fund may be organized and managed, and may invest in
7 businesses, located within or outside the state, provided the
8 investment objectives and criteria for such fund shall be consistent
9 with policies adopted by the corporation's board of directors,
10 including, but not limited to, a requirement that not less than the
11 amount invested by the corporation in such investment fund, net of
12 reasonable management fees and closing costs, shall be invested in a

13 manner that supports (A) the growth of business operations of
14 companies in the technology, bioscience or precision manufacturing
15 sectors in the state, or (B) the relocation of companies in such sectors to
16 the state.

17 Sec. 2. Section 32-41aa of the 2016 supplement to the general statutes
18 is repealed and the following is substituted in lieu thereof (*Effective July*
19 *1, 2016*):

20 For the purpose of this section and sections 32-41bb to 32-41dd,
21 inclusive:

22 (1) "Administrative costs" means the costs paid or incurred by the
23 administrator, including, but not limited to, peer review costs,
24 professional fees, allocated staff costs and other out-of-pocket costs
25 attributable to the administration and operation of the Connecticut
26 Bioscience Innovation Fund.

27 (2) "Administrator" means Connecticut Innovations, Incorporated,
28 in its capacity as administrator of the Connecticut Bioscience
29 Innovation Fund established pursuant to section 32-41cc, as amended
30 by this act.

31 (3) "Advisory committee" means the Bioscience Innovation
32 Advisory Committee established pursuant to section 32-41bb.

33 (4) "Early-stage business" means a business that has [been in
34 operation for not more than seven years and is developing or testing a
35 product or service that is (A) not yet available for commercial release,
36 or (B) commercially available in a limited manner, including, but not
37 limited to, market testing of prototypes and clinical trials that have not
38 begun phase II evaluation] not yet achieved an annual commercial
39 revenue greater than two million dollars.

40 (5) "Eligible recipient" means a duly accredited college or university,
41 a nonprofit corporation or a for-profit start-up or early-stage business.
42 "Eligible recipient" also includes any business that has received
43 financial assistance from the Connecticut Bioscience Innovation Fund

44 or from Connecticut Innovations, Incorporated, for the purpose of
45 additional financial assistance to be awarded to such business from
46 such fund.

47 (6) "Financial assistance" means any and all forms of grants,
48 extensions of credit, loans or loan guarantees, equity investments or
49 other forms of financing.

50 (7) "Return on investment" means any and all forms of principal or
51 interest payments, guarantee fees, returns on equity investments,
52 royalties, options, warrants and debentures and all other forms of
53 remuneration to the administrator in return for any financial assistance
54 offered or provided.

55 [(8) "Phase II evaluation" means a phase II clinical trial conducted
56 under the auspices of an independent peer-reviewed protocol that has
57 been reviewed and approved by one of the National Institutes of
58 Health or the federal Food and Drug Administration.]

59 Sec. 3. Section 32-41cc of the 2016 supplement to the general statutes
60 is repealed and the following is substituted in lieu thereof (*Effective July*
61 *1, 2016*):

62 (a) There is established a Connecticut Bioscience Innovation Fund,
63 to be held, administered, invested and disbursed by the administrator
64 pursuant to this section. The fund shall contain any moneys required
65 or permitted by law to be deposited in the fund and any moneys
66 received from any public or private contributions, gifts, grants,
67 donations, bequests or devises to the fund. [Repayment of principal
68 and interest on loans issued from the fund] Pending disbursement as
69 financial assistance to eligible recipients, moneys in or received for the
70 fund may be deposited with and invested by any institution as may be
71 designated by the administrator at its sole discretion and paid as the
72 administrator shall direct. The administrator may make payments
73 from such deposit accounts for use in accordance with the provisions
74 of this section. Earnings attributable to such investments shall be
75 credited to the fund and shall become part of the assets of the fund.

76 Any balance remaining in the fund at the end of any fiscal year shall be
77 carried forward in the fund for the fiscal year next succeeding.

78 (b) Any return on investment, repayment of loan principal or
79 interest or other income or earnings received by the administrator as a
80 result of financial assistance provided from the Connecticut Bioscience
81 Innovation Fund to eligible recipients [, or attributable to the
82 investment of the fund by the administrator, shall be deposited and
83 held for the use and benefit of the fund. Moneys in or received for the
84 fund may be deposited with and invested by any institution as may be
85 designated by the administrator at its sole discretion and paid as the
86 administrator shall direct. The administrator may make payments
87 from such deposit accounts for use in accordance with the provisions
88 of this section] shall be deemed unrestricted funds of the corporation
89 for the purposes of subsection (b) of section 32-41a.

90 (c) The Connecticut Bioscience Innovation Fund shall not be deemed
91 an account within the General Fund and shall be used exclusively for
92 the purposes provided in this section.

93 (d) The Connecticut Bioscience Innovation Fund shall be used (1) to
94 provide financial assistance to eligible recipients as may be approved
95 by the advisory committee pursuant to subsection (e) of this section,
96 (2) for the repayment of state bonds in such amounts as may be
97 required by the State Bond Commission, and (3) to pay or reimburse
98 the administrator for administrative costs pursuant to subsection (j) of
99 this section. Such financial assistance shall be awarded to further the
100 development of bioscience, biomedical engineering, health information
101 management, medical care, medical devices, medical diagnostics,
102 pharmaceuticals, personalized medicine and other related disciplines
103 that are likely to lead to an improvement in or development of
104 services, therapeutics, diagnostics or devices that are commercializable
105 and designed to advance the coordination, quality or efficiency of
106 health care and lower health care costs, and that promise, directly or
107 indirectly, to lead to job growth in the state in these or related fields.

108 (e) All expenditures from the Connecticut Bioscience Innovation

109 Fund, except for administrative costs reimbursed to the administrator
110 pursuant to subsection (j) of this section and amounts required for the
111 repayment of state bonds in such amounts as may be required by the
112 State Bond Commission, shall be approved by the advisory committee.
113 Any such approval shall be (1) specific to an individual expenditure to
114 be made, (2) for budgeted expenditures with such variations as the
115 advisory committee may authorize at the time of such budget
116 approval, or (3) for a financial assistance program to be administered
117 by staff of the administrator, subject to limits, eligibility requirements
118 and other conditions established by the advisory committee at the time
119 of such program approval. The advisory committee may provide
120 financial assistance directly to eligible recipients or indirectly to
121 eligible recipients by investment in private equity investment funds,
122 including investment funds organized, managed and investing in
123 businesses within or outside the state, as described in subsection (g) of
124 this section.

125 (f) Connecticut Innovations, Incorporated shall provide any
126 necessary staff, office space, office systems and administrative support
127 for the operation of the Connecticut Bioscience Innovation Fund in
128 accordance with this section. In acting as administrator of the fund, the
129 administrator shall have and may exercise all of the powers of
130 Connecticut Innovations, Incorporated set forth in section 32-39, as
131 amended by this act, provided expenditures from the fund shall be
132 approved by the advisory committee pursuant to subsection (e) of this
133 section.

134 (g) The advisory committee shall establish an application and
135 approval process with guidelines and terms for financial assistance
136 awarded from the Connecticut Bioscience Innovation Fund directly to
137 eligible recipients. Such guidelines and terms shall include (1) a
138 requirement that any applicant for financial assistance shall be
139 operating in the state, or proposing to relocate operations to the state,
140 in whole or in part, as a condition of such financial assistance, (2)
141 limitations on the total amount of financial assistance that may be
142 awarded in the form of loans and grants, (3) eligibility requirements

143 for loans and grants designed to encourage and support collaborative
144 ventures among eligible recipients, (4) peer review requirements, (5) a
145 process for preliminary review of applications for strength and
146 eligibility by the administrator before such applications are presented
147 to the advisory committee for consideration, (6) return on investment
148 objectives, and (7) such other guidelines and terms as the advisory
149 committee determines to be necessary and appropriate in furtherance
150 of the objectives of this section. The advisory committee shall adopt
151 guidelines for any financial assistance provided indirectly to eligible
152 recipients by investment into private equity investment funds,
153 including, but not limited to, a requirement that any private equity
154 investment fund that receives an investment from the advisory
155 committee invest not less than the amount of such investment by the
156 advisory committee, net of reasonable management fees and closing
157 costs, in eligible recipients in the state.

158 (h) Financial assistance awarded from the Connecticut Bioscience
159 Innovation Fund to eligible recipients shall be used for costs related to
160 facilities, necessary furniture, fixtures and equipment, materials and
161 supplies, peer review, proof of concept or relevance, compensation,
162 and such other costs that the advisory committee determines to be
163 eligible for financial assistance within the purposes of this section.

164 (i) Beginning January 1, 2014, the administrator shall prepare for
165 each fiscal year a plan of operations and an operating and capital
166 budget for the Connecticut Bioscience Innovation Fund. Not later than
167 ninety days prior to the start of the fiscal year, the administrator shall
168 submit the plan and budget to the advisory committee for its review
169 and approval.

170 (j) Administrative costs shall be paid or reimbursed to the
171 administrator from the Connecticut Bioscience Innovation Fund,
172 provided the total of such administrative costs in any fiscal year shall
173 not exceed five per cent of the total amount of the allotted funding for
174 such fiscal year as determined in the operating budget prepared
175 pursuant to subsection (i) of this section. Nothing in section 32-41aa, as

176 amended by this act, 32-41bb or this section shall require the
 177 administrator to risk or expend the funds of Connecticut Innovations,
 178 Incorporated in connection with the administration of the Connecticut
 179 Bioscience Innovation Fund.

180 (k) Not later than April 15, 2014, and annually thereafter, the
 181 administrator shall provide a report of the activities of the Connecticut
 182 Bioscience Innovation Fund to the advisory committee for its review
 183 and approval. Upon its approval, the advisory committee shall provide
 184 such report, in accordance with the provisions of section 11-4a, to the
 185 joint standing committees of the General Assembly having cognizance
 186 of matters relating to finance, revenue and bonding, appropriations,
 187 commerce, public health and higher education. Such report shall
 188 contain available information on the status and progress of the
 189 operations and funding of the Connecticut Bioscience Innovation Fund
 190 and the types, amounts and recipients of financial assistance awarded
 191 and any returns on investment.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2016	32-39
Sec. 2	July 1, 2016	32-41aa
Sec. 3	July 1, 2016	32-41cc

CE Joint Favorable Subst. C/R

FIN

FIN Joint Favorable

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: See Below

Municipal Impact: See Below

Explanation

The bill allows Connecticut Innovations (CI) to invest in private equity investment funds. There is no impact to the state as the bill does not authorize any additional General Obligation (GO) bond funds to CI for this purpose.¹

The bill also modifies the Connecticut Bioscience Innovation Fund (CBIF) by expanding eligible recipients for the program. This program is supported by GO bond funds which have been allocated by the State Bond Commission for FY 13 to FY 22 (See Background).

Finally, the bill allows returns on investments and repayments associated with CBIF to be unrestricted in use by CI. CI may therefore use those returned CBIF funds for projects in other CI programs (e.g. private equity investments under Section 1 of the bill) as well as other CBIF projects, at the agency's discretion.

Under current law, any returns on investment related to CBIF could only be utilized for future CBIF projects.

Background: PA 13-239 provides an authorization of \$200 million over ten years to CBIF, all of which was allocated by the State Bond Commission at the February 2014 meeting.

¹ CI is a quasi-public state agency that is financed by loan repayments, investment returns, and fees, as well as General Obligation bond authorizations from time to time.

CT Bioscience Innovation Fund Bond Payments Schedule	
Fiscal Year Ending June 30	Amount
2013	10,000,000
2014	10,000,000
2015	15,000,000
2016	15,000,000
2017	25,000,000
2018	25,000,000
2019	25,000,000
2020	25,000,000
2021	25,000,000
2022	25,000,000
Total	200,000,000

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sSB 401*****AN ACT CONCERNING THE CONNECTICUT BIOSCIENCE INNOVATION FUND AND INVESTMENTS BY CONNECTICUT INNOVATIONS, INCORPORATED.*****SUMMARY:**

This bill allows Connecticut Innovations, Inc. (CI) to use its unrestricted funds and funds in the Connecticut Bioscience Innovation Fund (CBIF) (see "BACKGROUND") to invest in private equity investment funds under certain conditions.

It makes the following changes to CBIF administration and eligibility:

1. crediting to CI's unrestricted funds any financial returns that result from providing CBIF financial assistance;
2. making businesses' eligibility for CBIF funding contingent on annual commercial revenue, rather than the age of the business and current activity; and
3. allowing CI to provide, through CBIF, additional funding to businesses that have already received financial assistance from CI or CBIF ("follow-on funding").

The bill also makes technical and conforming changes.

EFFECTIVE DATE: July 1, 2016

PRIVATE EQUITY FUND INVESTMENT***CI's General Powers***

The bill authorizes CI to (1) invest its unrestricted funds in private equity investment funds, or funds of funds, and (2) enter into related

limited partnership agreements or other contractual arrangements with the investment funds. The investment funds may be organized and managed and invested in businesses in- or out-of-state, as long as the funds' investment objectives and criteria are consistent with policies adopted by CI's board of directors. Under the bill, the policies must require an investment fund to invest at least as much money as CI invested in the fund, discounting reasonable management fees and closing costs, to support the (1) growth of technology, bioscience, or precision manufacturing businesses or (2) relocation of these businesses to Connecticut.

CBIF

Under existing law, the CBIF advisory committee provides CBIF financial assistance directly to eligible recipients. Under the bill, the committee may additionally provide financial assistance indirectly to eligible recipients by investing in private equity investment funds, including those organized, managed, and investing in businesses in- or out-of-state.

The bill requires the committee to adopt guidelines for providing CBIF financial assistance through private equity investment funds. The guidelines must require any fund that receives a CBIF investment to invest an amount equal to or higher than the CBIF investment, discounting reasonable management fees and closing costs, in Connecticut entities that qualify for CBIF assistance.

CBIF ADMINISTRATION AND ELIGIBILITY

Returns on Investment

The law, unchanged by the bill, requires any money in CBIF to be used for financial assistance for eligible recipients.

Under current law, any return on investment, repayment of loan principal and interest, or other income or earnings ("returns") received as a result of CBIF financial assistance is credited and held for CBIF's use. Under the bill, these returns are not credited to CBIF but are instead deemed unrestricted funds of CI. Consequently, CI can use the

CBIF returns to fund any of its other programs or purposes.

Eligibility

By law, entities eligible for CBIF financial assistance include accredited colleges or universities, nonprofits, for-profit start-ups, or early-stage businesses. The bill makes businesses' eligibility for CBIF funding contingent on annual commercial revenue, rather than the age of the business and current activity, by modifying the definition of "early-stage business." Under current law, an early-stage business is one that has been operating for seven years or less and is developing or testing a product or service that is (1) not yet available for commercial release or (2) commercially available in a limited manner, including market testing of prototypes and certain clinical trials. Under the bill, an early-stage business is instead one that has not yet achieved annual commercial revenue of more than \$2 million.

BACKGROUND

CI

CI is a quasi-public agency with broad powers to finance and promote technological innovation. It is governed by a 17-member board composed of gubernatorial and legislative appointees, as well as four ex-officio members. Among other things, CI invests in startups in software and information technology, bioscience, clean technology, digital media, and technology important to advanced manufacturing (e.g., photonics and advanced materials). CI can also fund research that has commercial applications.

CBIF

CBIF is administered by CI and governed by an advisory committee. CBIF provides grants, loans, equity, and other types of investments ("financial assistance") to colleges, universities, nonprofits, start-ups, and early-stage businesses to further the development of disciplines, such as bioscience, medical devices, and health information management, that (1) are likely to lead to an improvement in or development of commercializable services, therapeutics, diagnostics, or devices, (2) are designed to advance the

coordination, quality or efficiency of health care and lower health care costs, and (2) promise, directly or indirectly, to lead to job growth in the state in these or related fields. CBIF is capitalized by bond funds (CGS § 32-41dd).

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute Change of Reference

Yea 17 Nay 3 (03/17/2016)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 50 Nay 0 (04/07/2016)